

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CIAE-00 COME-00

EB-11 FRB-03 INR-11 NSAE-00 RSC-01 XMB-07 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 AGR-20 L-03 H-03 PRS-01 PA-04 USIA-15

FEA-02 AEC-11 DODE-00 FPC-01 INT-08 PM-07 SAM-01

SCI-06 SAJ-01 DRC-01 /237 W
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P R 241059Z SEP 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 2595

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

EFIN, FR, IMF, IBRD, EEC

SUBJECT: ECONOMICS AND FINANCE MINISTER FOURCADE ON
INTERNATIONAL ECONOMIC AND FINANCIAL PROBLEMS

1. SUMMARY. - IN SEPT 20 SESSION WITH ECONOMIC JOURNAL-
ISTS, ECONOMICS AND FINANCE MINISTER FOURCADE PRESENTED
AT LENGTH HIS VIEWS ON CURRENT ECONOMIC AND FINANCIAL
ISSUES. HE SAID HE WOULD EMPHASIZE TO FORTHCOMING IMF/
IBRD MEETING WORLD'S NEED FOR MONETARY STABILITY, AND
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WOULD PROPOSE CHANGE IN IMF ARTICLES SO AS TO ALLOW CEN-

TRAL BANKS TO BUY AND SELL GOLD FREELY. HE PRESENTED CONCEPT OF "COMMUNITY LEVEL" FOR DOLLAR AS CENTRAL FEATURE OF FRENCH PROPOSAL ON CONCERTED FLOATING OF EUROPEAN CURRENCIES. THIS WOULD BE IMPORTANT SAFEGUARD TO PROTECT EUROPE FROM DISTURBANCES STEMMING FROM MASSIVE RECYCLING OF PETRO-DOLLARS TO US. HE SAID HE UNDERSTOOD RELUCTANCE OF GERMANS TO UNDERWRITE PROPOSED COMMUNITY LOAN. IN HIS VIEW, SOLUTION WAS TO PUT CEILING ON NATIONAL GUARANTEES OF LOAN. FINALLY, HE SAID FRANCE WOULD PREFER TO GET CAPITAL INFLOWS FROM OIL PRODUCERS IN OTHER FORMS THAN DIRECT INVESTMENT. END SUMMARY.

2. DURING LUNCHEON SESSION SEPT 20 WITH FRENCH ECONOMIC JOURNALISTS, ECONOMICS AND FINANCE MINISTER FOURCADE COMMENTED AT LENGTH ON CURRENT INTERNATIONAL ECONOMIC AND FINANCIAL PROBLEMS. FOLLOWING ARE HIGHLIGHTS OF HIS REMARKS, WHICH WERE MADE LARGELY IN ANSWER TO QUESTIONS.

3. MONETARY SYSTEM. - FOURCADE SAID THAT IN HIS SPEECH TO FORTHCOMING IBRD/IMF ANNUAL MEETING, HE WOULD EMPHASIZE SEVERAL POINTS. FIRST, THAT IT WAS IMPORTANT TO PREVENT PRESENT DISTURBANCES IN MONETARY SYSTEM, STEMMING PARTICULARLY FROM STEEP RISE OF OIL PRICES, FROM HAVING DISASTROUS CONSEQUENCES ON LDCS. WORLD NEEDED TO FIND SATISFACTORY MONETARY ORGANIZATION QUICKLY. SINCE SDRS ALREADY EXISTED, THEY SHOULD BE STRENGTHENED AND MADE PRINCIPAL INSTRUMENT FOR INTERNATIONAL SETTLEMENTS. AS FOR GOLD, FOURCADE HOPED TO CONVINCE US AND CANADA TO AGREE WITH EUROPEAN VIEWPOINT. OBJECTIVE SHOULD BE TO MAKE GOLD "AN ORDINARY COMMODITY." RECENT GOLD-SECURED GERMAN LOAN TO ITALY, BASED ON ZEIST AGREEMENT, WAS IMPORTANT STEP TOWARD THAT OBJECTIVE. FRANCE WOULD PROPOSE CHANGE IN IMF ARTICLES OF AGREEMENT SO THAT CENTRAL BANKS COULD BUY AND SELL GOLD FREELY WITHOUT SUBJECTING THEMSELVES TO CRITICISM.

4. FRENCH PROPOSAL ON CONCERTED FLOATING OF EUROPEAN CURRENCIES. - FOURCADE FIELDDED SEVERAL QUESTIONS ON THIS PROPOSAL, WHICH WAS MADE TO MEETING OF EC FINANCE MINISTERS IN BRUSSELS ON SEPT 16.

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(A) IN ONE REPLY, HE SAID PROPOSAL WAS A PROVISIONAL AND EMPIRIC APPROACH FOR REVIVAL OF EUROPEAN MONETARY COOPERATION. IT WOULD NOT AFFECT EXISTENCE OF "SNAKE" IN ITS PRESENT FORM AMONG PRESENT PARTICIPANTS. FUNDAMENTAL ELEMENT OF PROPOSAL WAS CONCEPT THAT EC COUNTRIES SHOULD AGREE ON "COMMUNITY LEVEL" FOR DOLLAR. THIS WOULD BE STARTING POINT FOR BUILDING NEW RELATIONSHIP AMONG EUROPEAN CURRENCIES, SO THAT CONCERTED FLOAT-

ING WOULD SUCCEED AND OVER TIME GIVE PROPOSED EUROPEAN
UNIT OF ACCOUNT ENOUGH SOLIDITY THAT IT WOULD COME TO
BE THE REAL EUROPEAN MONEY.

(B) AT ANOTHER POINT IN SESSION, FOURCADE SAID
"SNAKE" IN ITS PRESENT FORM WAS VERY INFLEXIBLE
(CONTRAIGNANT) ARRANGEMENT. HE OPINED THAT IF HIS
PREDECESSOR HAD NOT TAKEN DECISION TO WITHDRAW FROM
"SNAKE," FRANCE WOULD HAVE LOST ALL OF ITS RESERVES.
THUS OBJECTIVE OF FRENCH PROPOSAL WAS NOT TO BRING
FRANCE BACK INTO "SNAKE." RATHER IT WAS TO PROVIDE,
THROUGH TECHNIQUE OF FIXING "COMMUNITY LEVEL" FOR DOLLAR,
AN IMPORTANT SAFEGUARD FOR EUROPEAN CURRENCIES IN PERIOD

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WHEN SUBSTANTIAL AMOUNTS OF CAPITAL WERE EXPECTED TO FLOW FROM OIL EXPORTERS INTO US. THIS, HE SAID, WOULD EXERT UPWARD PRESSURE ON DOLLAR, WHICH NEITHER US, NOR JAPAN, NOR EUROPE WANTED TO SEE. HE FELT HIS PROPOSAL WOULD HELP STEADY EXCHANGE RATES IN THIS ATMOSPHERE AND PROTECT EUROPE FROM POSSIBLE DISTURBANCES STEMMING FROM MASSIVE RECYCLING OF PETRO-DOLLARS TO US.

5. COMMUNITY LOAN. - FOURCADE SAID IT WAS UNDERSTAND-
ABLE THAT GERMANY SHOULD DISPLAY SOME RELUCTANCE REGARD-
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ING A COMMUNITY BOND ISSUE AND PREFER BILATERAL LOANS SECURED BY GOLD. GERMANS AND DUTCH WERE CONCERNED THAT RESPONSIBILITY FOR REPAYMENT OF SUCH ISSUE MIGHT FALL SOLELY ON COUNTRIES RUNNING TRADE SURPLUSES. FRENCH EXPERTS ARE WORKING ON A FORMULA WHICH WOULD PUT A CEILING ON NATIONAL GUARANTEES THAT EACH PARTICIPANT WOULD BE EXPECTED PROVIDE FOR SUCH A LOAN. IT SHOULD BE POSSIBLE TO DEVISE A PLAN THAT WILL REASSURE GERMANS. ANOTHER CAUSE OF GERMAN CONCERN WAS THAT PROCEEDS OF LOAN MIGHT BE USED TO COMMIT BLUNDERS AS REGARDS ASSISTANCE TO FARMERS OR IN REGIONAL PROGRAMS.

6. FRENCH RECEPTIVITY TO INVESTMENTS BY OIL PRODUCERS. -
FOURCADE SAID FRANCE WELCOMED CAPITAL INVESTMENTS BY OIL PRODUCERS. WITHIN ITS 4 BILLION FRANC PROGRAM OF LOANS TO EXPORTING FIRMS, FRANCE, THROUGH INTERMEDIARY OF CREDIT NATIONAL, HAD ALREADY BEGUN LONG-TERM BORROWING FROM OIL-PRODUCING COUNTRIES. IN ADDITION, FRENCH WELCOMED BANK DEPOSITS AND PORTFOLIO INVESTMENTS BY SUCH COUNTRIES. HOWEVER, THEY WOULD EXAMINE DIRECT INVESTMENT PROPOSALS FROM OIL PRODUCERS ON CASE-BY-CASE BASIS, JUST AS THEY DID PROPOSALS FROM PROSPECTIVE EC AND US INVESTORS. IN GENERAL, THEY WOULD PREFER TO GET CAPITAL FROM OIL PRODUCERS IN OTHER FORMS THAN DIRECT INVESTMENT.
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